NOMINATION OF WILLIAM McCHESNEY MARTIN, JR.

HEARING

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

EIGHTY-SECOND CONGRESS

FIRST SESSION

ON

THE NOMINATION OF WILLIAM McCHESNEY MARTIN, JR., TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

MARCH 19, 1951

Printed for the use of the Committee on Banking and Currency

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NOMINATION OF WILLIAM McCHESNEY MARTIN, JR.

MARCH 19, 1951

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 2 p. m., in room P–36, the Capital, Senator Burnet R. Maybank (chairman) presiding.

Present: Senators Maybank, Fulbright, Robertson, Sparkman, Frear, Douglas, Capehart, Bricker, Schoeppel, Dirksen, and Bennett.

The CHAIRMAN. The committee will come to order.

I was told by Senator Ives that Mr. Martin met with his approval. He thought it was a good appointment and to be certain to vote for it. Mr. Shugrue, would you like to make a statement for Senator Ives? I believe the committee will be glad to hear it.

Mr. SHUGRUE. No, thank you, sir. I am present just to make sure there is a voting quorum present.

The CHAIRMAN. I also have a letter here from Senator Lehman which I will place in the record if there is no objection.

Senator BENNETT. That is a letter of approval?

The CHAIRMAN. Yes; so I understand.

(The letter referred to follows:)

UNITED STATES SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
March 19, 1951.

Hon. BURNET R. MAYBANK,
Chairman, Senate Banking and Currency Committee,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: I understand your committee will today consider the nomination of Mr. William McChesney Martin, Jr., for membership on the Federal Reserve Board vice Mr. Thomas McCabe.

Mr. Martin is, as you know, a citizen of my State. I would like you and the members of the committee to know that I have the highest personal and official regard for Mr. Martin. I have followed his career with great interest and know of my own knowledge of the superior quality of his talents and of his many significant achievements in the world of business, finance, and Government. His capacity for working with other people and for administrative management are too well known to need my further comment. I can pay only the highest tribute to his integrity of purpose and character.

I am pleased to be able, as a Member of the Senate, to give my unreserved endorsement to this nomination and to bespeak for Mr. Martin the favorable action of your committee.

Yours very sincerely,

HERBERT H. LEHMAN.

Senator ROBERTSON. Mr. Chairman, I would like to present for the record a letter from the president of the Virginia Bankers Association, endorsing the appointment of Mr. Martin; a letter from Mr. Francis

Cocke, president of the First National Exchange Bank of Roanoke and also, I believe, vice president of the American Bankers Association; a letter from the vice president of the State-Planters Bank & Trust Co. of Richmond, one of the large banks of Virginia; and two telegrams, all of which favor the confirmation of Mr. Martin. I ask that they be made a part of the record.

The CHAIRMAN. They will be placed in the record.

(The letters and telegrams referred to follow:)

THE CULPEPER NATIONAL BANK,
Culpeper, Va., March 17, 1951.

Senator A. WILLIS ROBERTSON,
Senate Office Building, Washington, D. C.

DEAR SENATOR ROBERTSON: Francis Cocke, of Roanoke, called me on yesterday and suggested that I sound out some of the bankers in the State and pass along to you their reaction on the appointment of Mr. William McChesney Martin as Chairman of the Federal Reserve Board. Francis stated that this appointment was coming up in your committee for recommendation on Monday and that you would like to have the thinking of the bankers in Virginia on the appointment.

I have contacted by telephone a number of the bankers and almost without exception they feel that this appointment is like a breath of fresh air to most of the appointments that have been made. They feel that Mr. Martin is an outstanding young man, with an excellent reputation, background, and experience. In most cases, the only reservation in the minds of the banks to whom I talked was the question of the Treasury Department association for the past 2 years, and in view of the recent fight between the Treasury Department and the Federal Reserve Board, these bankers wondered whether or not Mr. Martin had absorbed the Treasury viewpoint, which might influence him in his service to the Federal Reserve Board.

Without exception, the bankers whom I called felt that the Federal Reserve System is vital to American banking and the American economy, and they feel that everything possible should be done to strengthen the Federal Reserve Board and keep it separate and apart, as it has been. I certainly share this view.

In our conversations, however, we discussed the fact that, as far as we knew, Mr. Martin had been recommended by Mr. McCabe, and if this be true, it is believed that Mr. McCabe would not have recommended a man who did not have the belief in, or the interest of, the Federal Reserve System at heart.

I hope that this comment, gathered from a group of Virginia bankers, may be of assistance to you in reaching your own decision.

With kindest regards,

Sincerely,

GILES H. MILLER, Jr.

THE FIRST NATIONAL EXCHANGE BANK OF ROANOKE,
Roanoke, Va., March 16, 1951.

Hon. A. WILLIS ROBERTSON,
Senate Office Building, Washington, D. C.

MY DEAR SENATOR ROBERTSON: Our morning paper carried the news of Mr. McCabe's resignation as a member and Chairman of the Federal Reserve Board, and the appointment of Mr. Martin to fill the vacancy on the Board and to become its Chairman. I was sorry to see Mr. McCabe resign, because my contacts with him have been very pleasant. I have enjoyed his frankness and his fair approach to the various pieces of Federal legislation which I have discussed with him from time to time.

As far as Mr. Martin's appointment is concerned, I think it is a fine appointment. I have always regarded Mr. Martin as a man of integrity and ability, and I believe that his appointment will be very acceptable to bankers in general. I sincerely hope that his confirmation will be forthcoming.

With cordial good wishes, I am

Sincerely yours,

C. FRANCIS COCKE, *President.*

STATE-PLANTERS BANK & TRUST CO.,
Richmond, Va., March 16, 1951.

Hon. WILLIS A. ROBERTSON,
Senate Office Building, Washington, D. C.

DEAR SENATOR ROBERTSON: This is to speak a good word for the President's nominee, Mr. William McChesney Martin. I have known him slightly, and known of him for a long period of years.

Mr. Martin has character and intelligence. He has had a broad financial experience, and though it has not been directly in the field of central banking, he, with his type of mind, could not but have been a student of it. As you know, his father was for years president of the Federal Reserve Bank of St. Louis.

I just wanted to say that in these days of hellish difficulty in getting able men to take top-flight jobs, I think the President was fortunate indeed.

With my kindest regards,

Very sincerely yours,

J. HARVIE WILKINSON, Jr., *Vice President.*

RICHMOND, VA., *March 17, 1951.*

Senator A. WILIS ROBERTSON,
Senate Office Building, Washhinngton, D. C.:

The appointment of Mr. Martin to the Federal Reserve Board and to become its Chairman I think a good one. His record and background are outstanding and I believe he will have the support and confidence of the public generally and bankers specifically.

H. H. AUGUSTINE,
President, State-Planters Bank & Trust Co.

RICHMOND, VA., *March 17, 1951.*

Hon. A. WILLIS ROBERTSON,
United States Senate, Washington, D. C.:

It is my belief that William Martin will make able Chairman Federal Reserve Board and I hope that you vote for the confirmation of his nomination.

H. HITER HARRIS,
President, First and Merchants National Bank.

The CHAIRMAN. Do any of the Senators have telegrams or letters they would like to make part of the record? If so, it will be done if there is no objection.

The Chair does not hear any objection.

Senator BRICKER. What is this biography of Frank A. Southard?

Mr. MARTIN. He is up for United States Executive Director of the International Monetary Fund.

The CHAIRMAN. I do not think we had better go into anything today except Mr. Martin's nomination because the committee has not been notified.

Senator BRICKER. I just wanted to know what this was all about.

The CHAIRMAN. Mr. Parsons said this just happened to be here so I thought we had better put it off until another time. We thought there was a greater necessity for Mr. Martin's appointment because of the importance of the war effort and the monetary situation as it exists. We would not wish to delay it too long unless some Senator had reason to do so. We called this meeting with the understanding that Mr. Martin would come here at 2 o'clock.

But bring that up the next time we have a meeting, that is, Mr. Southard's appointment.

Senator ROBERTSON. Mr. Chairman, could we have a formal biography of Mr. Martin?

The CHAIRMAN. I did not prepare one.

Mr. Martin, would you mind identifying yourself for the record and give us your biography; I mean, what you think the committee should know?

Senator ROBERTSON. Where you were born, what your papa did, and then what you did.

The CHAIRMAN. Go ahead, sir.

Mr. MARTIN. Well, I was born in St. Louis on December 17, 1906. I was raised in St. Louis, educated in the public schools in St. Louis and also in a private school.

In due course I matriculated at Yale University and graduated from Yale in 1928.

Immediately after leaving college I worked with the State and then the Federal Reserve bank examiners in the Eighth Federal Reserve District; with the St. Louis Federal Reserve Bank, of which my father was then the chief executive. Incidentally, my father was the chief executive of the St. Louis Federal Reserve Bank from the time it was founded. He carried the papers founding the bank around in his valise before it actually had a house, and he served until 1941 as the chief executive of the bank, a period of 27 years.

After serving for a few months in the bank examination department of the Federal Reserve Bank of St. Louis, my father objected very strenuously to my being in the bank since he was associated with it, and so I had to go out and get a job. I became associated with A. G. Edwards & Sons, a small brokerage and investment banking firm. I became head of their statistical department; became a partner of the firm in 1931 to operate their membership on the floor of the New York Stock Exchange.

I was a member of the New York Stock Exchange from 1931 to 1938; became a governor of the stock exchange in 1935; became the chairman of the board in 1938 and served as chairman of the board and president pro tempore for a period of 2 months and was elected the president of the exchange in July of 1938 and I served in that capacity until April of 1941, when I was drafted into the United States Army as a private.

I served in the United States Army for nearly 5 years and came out a colonel. For my last 2 years I was an executive in the Munitions Assignments Board and the executive of the President's Soviet Protocol Committee, of which Mr. Harry Hopkins was the chairman and Maj. Gen. James H. Burns was the executive officer.

I was discharged from the Army in roughly October of 1945, received the Legion of Merit, and on November 26, 1945, I was appointed Chairman of the Board of the United States Export-Import Bank.

In February of 1946 I became president as well as chairman of that bank and I served in that capacity until February 8, 1949, when John Snyder asked me to go into the Treasury, and I became Assistant Secretary of the Treasury in charge of international finance. I have been in that job until the present time.

Senator ROBERTSON. Mr. Martin, would you mind outlining for us in a general way your views concerning the relative functions of the Treasury Department and the Federal Reserve Board with respect to the management of the national debt?

Mr. MARTIN. Under the law the Treasury has the responsibility for management of the debt. The Federal Reserve is a central bank. I think the relationship of the central bank to the Treasury is a very difficult and delicate relationship that has developed through the years in different ways in different countries, but in this country it is clear to me that it was intended the Federal Reserve should be independent and not responsible directly to the executive branch of the Government but should be accountable to the Congress of the United States and, in my judgment, should act as a trustee. I like to think of a trustee relationship to see that the Treasury does not engage in the natural temptation to depreciate the currency or engage in practices which would harm the general public welfare. At the same time this concept of independence is one that to me is very much like one's credit standing. You have to earn it and you have to be careful about not abusing it. If you have a credit standing in the community that permits you to go to the bank and get a line of credit of a million dollars and you are not able to support that million dollars, a lifetime of building up your credit standing can be dissipated in 30 days.

The relationship here, I think, particularly in the period in which we are operating, is one where the Treasury and the Federal Reserve must be partners in promoting the welfare of the Government securities market which makes it possible for the Government to finance its operations and to conduct sound financing.

Senator ROBERTSON. In 1935, when the Congress amended the Federal Reserve Act, they eliminated the ex officio members of the Treasury and the Comptroller of the Currency. Senator Glass testified that he had dominated the market operations of the Federal Reserve Board and all his predecessors had in time of emergency, but he did not think the Treasury should dominate it.

You have said they should be partners. Do you mean by that that even in a war period when we may have to do deficit financing as well as refinancing a lot of material debt, that they should be equal partners or do you think there are times when the Treasury should dominate the Federal Reserve bank?

Mr. MARTIN. I don't think there is ever a time when the Treasury should completely dominate the Federal Reserve; I don't think that is the correct relationship.

I had the privilege of having several long discussions with Senator Glass personally about this matter and I think I know something of his thinking. Senator Glass, having served on both sides of the aisle, was anxious to have the Comptroller of the Currency and the Secretary of the Treasury off the Federal Reserve Board. But I remember distinctly—and I have gone back through my notes—I took a course in banking at Columbia in the graduate school and worked closely with H. Parker Willis when he was consultant to Senator Glass for the Banking and Currency Committee, and it came up on several occasions that the question which you are raising was raised with Senator Glass. He said to me personally, and I know that I am not imagining this because I have some notes on this, that if two wars occurred in a very short space of time he didn't know what would happen.

I think the situation we are in today is tantamount to that. We have had one world war and we are in the midst of a present undeclared war. It would be easier in many respects if we had a declared war, but to me it amounts to almost the same thing.

But I can see no way of operating the Federal Reserve and the Treasury by trying to define specifically what the powers of each would be.

Now, if I may speak on the point for a minute, because I have thought about it a lot, the open-market operations of the Federal Reserve grew like Topsy. I had the pleasure of discussing the matter with Parker Gilbert, who had been Agent General of Reparations and who, when he came to the United States Treasury, was very much surprised to find that the open-market operations of the Federal Reserve which were just beginning to blossom actually affected the management of the Federal debt. It was an experience that startled him very much and he was quite upset about it for a while.

Now, the size of the debt since then has grown. I am not going to talk on that point because you gentlemen know as much about it as I do. It has grown a great deal, but actually the Treasury is in a position today, through its trust funds, where it can engage in open-market operations on its own account and in this recent period of disagreement between the Treasury and Federal Reserve, the Treasury was actually buying for the postal-savings account in a way that seems to me to be exactly the same as open-market operations of the Federal Reserve.

I merely cite that as how the two institutions have had a parallel growth and I would like to simply say to this committee, which has done a great deal of thinking on it, that I sincerely believe we are in a period of readjustment in our thinking on money and banking and—I hate to use this phrase, because it is a hackneyed one, but I have used it repeatedly—we may be in a type of money revolution.

But I don't see any way that we can move forward, regardless of how the arrangements that currently exist were arrived at, to refinance in the balance of this year $39,000,000,000 in addition to some $13,000,000,000 of bills, plus any new money demands that may be faced by the Treasury—I don't see how we can move forward to face that sort of a situation unless the Treasury and the Federal Reserve are working hand in glove.

Now, that doesn't mean that the Federal Reserve should be subordinated to the Treasury and I would like, since I have the opportunity, to tell you gentlemen of my relationship with Secretary Snyder.

Senator ROBERTSON. That is one thing I am sure the committee would be interested in, because he called me up and said that he endorsed you, and Mr. McCabe called me up and he endorsed you. I am sure the committee would be glad to have you explain whether or not, when working hand in glove, the Secretary of the Treasury will have his hand in your glove.

Senator BRICKER. Then just explain what the recent agreement was between the Treasury and the Federal Reserve that you helped work out.

Mr. MARTIN. I welcome the opportunity, although I have not talked this over with Secretary Snyder, but I am sure he wouldn't object to my saying this.

The CHAIRMAN. If you do not want to put it on the record you can go ahead and explain it to the Senator, if you have not talked it over yet with him.

Mr. MARTIN. No; I am quite sure the Secretary would not object.

The CHAIRMAN. If you want to go ahead and talk to the Senator, you can, but do you want it on the record?

Mr. MARTIN. I don't object to putting this on the record.

Senator FULBRIGHT. We want to see whether next year and the next year he still sounds the same.

The CHAIRMAN. All right. Go ahead.

Mr. MARTIN. I want to say that I have had a very happy personal relationship with Secretary Snyder and I am glad to tell you gentlemen how I came to go with the Treasury.

Secretary Snyder couldn't have persuaded me to go with the Treasury if he had been a different type of man. He sent for me at the end of 1948 and he told me that he could only offer me a reduction in salary; he couldn't offer me any promotion and he could only offer me tougher work than I had had before with no prospect of advancement, and that is exactly what he said to me. But he said that he needed help and assistance desperately. He had a great deal of difficulty getting anybody in the international field. I had been working in the international field at the time and he hoped very much that I would see my way clear to join the Treasury.

I joined the Treasury and I can assure you gentlemen I am not a "Yes" man. I have considered it my responsibility to Secretary Snyder to go to him at any time and tell him exactly what I think. I have never been treated as a subordinate although I am proud to be a subordinate of John Snyder. I have never been treated as a subordinate. He has treated me as a partner in the Treasury operation. We have not always agreed on everything; honest men do not always agree on everything. Matters of judgment are the sort of thing on which, in a free world, you are bound to have differences of opinion. But his relationship with me has been one of extreme frankness and I think it gives me a great deal of courage and heartens me a great deal to know that a man of that type is the Secretary of the Treasury.

Senator ROBERTSON. If you do not mind us saying so, when initially the Federal Reserve Board presented to the Treasury that it would be necessary to curb excessive purchases of 2½ bonds on the open market and the Board proposed to Secretary Snyder a 2¾ percent new issue, he was most reluctant to take it and did not take it for quite a while. On which side of that issue did you stand?

Mr. MARTIN. I was not consulted in the matter at that time, Senator. May I say a few things off the record?

The CHAIRMAN. Certainly. Off the record.

(Discussion off the record.)

Senator FULBRIGHT. Mr. Chairman, before he gets into that, there is one question which I know he cannot answer now but I would like to make a note of it. I would like to have on the record what you think about the bank holding company, in case no one else asks about it; not now, but when you get to it, because I am going to have to leave for another meeting. But would you remember to put on the record what your views are about the bank holding company?

The CHAIRMAN. I will ask that.

Senator FULBRIGHT. You are familiar with that?

Mr. MARTIN. I would like to have a chance to review it, Senator.

Senator FULBRIGHT. It is a very controversial subject.

Senator BRICKER. We have had it on the floor a couple of times; have we not, Senator Robertson? We had it in 1948 and again last year.

Senator ROBERTSON. It is such a technical matter.

Senator FULBRIGHT. What I want to know, actually, is what is going to be your attitude toward this action that is now pending, sponsored by the Federal Reserve. You will be in a key position in regard to the Bank of America. That is what I really want to know.

Senator ROBERTSON. I talked to counsel for the Bank of America just late last week, and those hearings are over and they are in the process of preparing their briefs. There is nothing more the Chairman of the Board can do. The matter is in the hands of the court beyond retrieve, and the court will either——

Senator FULBRIGHT. You mean the Federal Reserve could not withdraw if they wanted to?

Senator ROBERTSON. I do not think so.

Senator FULBRIGHT. I wanted to know what he thought.

Senator ROBERTSON. Well, if he wants to, he can tell us.

Senator FULBRIGHT. I just wanted whatever he did care to say about it.

Mr. MARTIN. I would have to answer you straight that I just don't know enough about it at this juncture. I would have to look into it. I just couldn't answer it.

The CHAIRMAN. Well, is has gotten to the point of a court decision now.

Senator ROBERTSON. You could tell the committee whether you favor the extension of bank holding companies or favor restrictions on bank holding companies and work out a proper plan.

Mr. MARTIN. I just would have to study it a little bit because I haven't been in close touch with that sort of thing, and I am certainly no encyclopedia.

Senator ROBERTSON. I can well understand your position.

Senator DOUGLAS. You see, that question is asked because there is popularly presumed to be a conflict between the views of Mr. Snyder and the views of the Federal Reserve Board. It is popularly believed that the Federal Reserve Board—in fact, it is known that the Federal Reserve Board—wishes to restrict the growth of bank holding companies and to turn the tide back; and it is at least believed that Secretary Snyder is hostile to this point of view of the Federal Reserve System. So, I think Senator Fulbright's question is a very important one.

Senator ROBERTSON. I can give a partial answer to that. I was in close touch with the Secretary of the Treasury and the Comptroller of the Currency all along on that issue during the hearings and after the hearings, and I can tell this committee that the Secretary of the Treasury and the Comptroller of the Currency gave unqualified endorsement to the bill I framed and introduced as a substitute bill for the one that Mr. McCabe had introduced. On that substitute bill, the distinguished Senator from Illinois agreed to practically everything except one phase of it.

Senator BRICKER. Did Mr. McCabe also accept your substitute?

Senator ROBERTSON. He never did. He almost did it but never did actually do it. I said:

Until you do it, that is the end of bank holding legislation as far as I am concerned. It will be up against a stone wall. We have so many other things to do.

Then, when the independent bankers approached me early this year about introducing a bill, I said:

I feel that the war financing has taken a turn that we do not know the development of, and it is undoubtedly admitted by the Treasury and Federal Reserve Board that there are instances in which certain types of holding companies serve a very useful purpose in assisting local banks, and we should not recklessly move into that picture until we have a better idea of what the general economic state of the Nation is and the general monetary situation—

and that is where the matter rested.

But, as far as the Secretary of the Treasury is concerned, if there was a feud between him and Mr. McCabe it is over granting permission to a bank holding company, Trans-America, to take on 20 branch banks during the time they were prosecuting them for violating the antitrust law.

The Comptroller—or, at least, the Secretary of the Treasury—told me that he gave due notice to Mr. McCabe that he was going to grant the permission. Mr. McCabe said it was not due notice.

So, when Trans-America exercised what it thought was its right to take them on, they got an order of the court against them. The Company violated that order and the circuit court of appeals held them in contempt. They took it to the Supreme Court, and the Supreme Court upheld both the district and the circuit courts, and the company on that issue got it in the neck and Mr. McCabe's position was upheld.

If there was a feud between the two, it revolved largely around that particular issue.

Now, you may go ahead.

Senator FREAR. If you have anything to add to that now.

Senator DOUGLAS. Mr. Martin, I think it is very important on that issue that the committee should know something of where you stand.

Mr. MARTIN. I have never discussed that issue with Secretary Snyder, Senator; never at any time I have been in the Treasury, and my information on it is, I am sorry to say, very cursory, because I have been working in the international field. I could tell you much more about the devaluation of the pound than I could about that. I wouldn't want to make any offhand remarks on it without really knowing more about it. I have never discussed it with Mr. McCabe or with Secretary Snyder.

Senator SCHOEPPEL. Then I take it, Mr. Chairman, you are in this present position: You have no preconceived idea one way or the other on that at this moment?

Mr. MARTIN. That is correct, sir.

Senator FULBRIGHT. Mr. Chairman, may I be excused? I have to go. I give the Senator from Virginia my proxy.

Senator BRICKER. What further understandings have you between the Treasury and the Federal Reserve in regard to preventing the monetization of the debt? You mentioned the 2¾-percent issue.

Mr. Martin. I would like to pursue the negotiation itself, since I was discussing it with you.

On Wednesday afternoon, the 28th of February, I still had no authority from the Secretary in any way to commit the Treasury. We had worked out this general understanding; and relations, I think, were quite good between the two groups that I told you about—Mr. Reaffer, Mr. Thomas, and Mr. Rouse, Federal Reserve; Mr. Bartelt and Mr. Haas, Treasury—but there was so much, shall I call it, loose talk in the situation that I thought we had to talk to the principals if we were to get anywhere.

So, on Wednesday afternoon, I went over the general idea of our program with Secretary Snyder in detail and got his authority to go before the Open Market Committee and the Federal Reserve Board on Thursday morning, March 1. Mr. Bartelt, the Fiscal Assistant Secretary, and I went before the Board.

I prefaced my remarks to the Board by saying that the most distressing thing to me as a student of markets was the fact that we were all talking about free markets but a free market didn't exist and couldn't exist as long as markets were being determined by market-letter writers and by comments on what was supposed to be coming from high Federal Reserve sources or high Treasury sources.

Right in the midst of this particular discussion, one market-letter writer announced that at a given time the Federal Reserve would pull the plug, and promptly three banks, that I checked with personally, dumped part of their holdings.

Now, I asked the officers of those banks, whom I know, just as a matter of interest, if they did that because of the market condition, because of an honest appraisal of the situation, and they confessed to me "No"; that they did it because they thought——

The Chairman. They did what? Did it because of what?

Mr. Martin. They did it because they expected the plug to be pulled at that time, and they expected to either have a chance to buy them back or they had commitments that at a later date they were going to make good on.

Now, I insist that is not a free market. I don't say we are ever going to have completely free markets, because markets are nursed along as children are nursed along. But I say we had gotten into the unfortunate position where a good part of the market was not having a free test, a fair test of evaluation. It was being determined by breakfast-table conversation and newspaper columnists, and you cannot have open-market operations with that atmosphere.

I pled with the Federal Reserve Board and with the Open Market Committee to go along with us on this operation; that we both of us jointly agree to keep within the family what our policies and programs were, and that I wanted to have a working relationship between the Treasury and the Federal Reserve that would make it possible for us to combine our judgments as to what proper pricing of securities should be.

Now, that is an extremely delicate judgment to make. If you take a group of 10 people around a table who are experts and say, "Shall we put out a $1\frac{3}{8}$-percent issue or a $1\frac{1}{2}$-percent issue or a $2\frac{1}{2}$-percent issue," you will get different judgments at any time.

I have never held and I don't believe Secretary Snyder has ever held that the cost of servicing the public debt is the paramount issue.

Senator ROBERTSON. Let me interrupt you right there. He may not have held that, but his speech in New York on January 18, in which he indicated the Federal Reserve knew what it was going to do and what he was going to do was 2½ percent, and indicated that was going to be a permanent policy, certainly started many people thinking that he was definitely committed, come what would, to financing and refinancing the debt at 2½ percent, and that is what scared so many people about the cause of tremendous inflation growing out of the dumping of these 2½ percent bonds. They wanted to get into something that was going to be more profitable, if that was going to be the public program.

Mr. MARTIN. I want to be thoroughly honest with this committee. I don't think that the agreement that was reached with the Federal Reserve necessarily breached the January 18 address. We tried very hard to work within the framework of that January 18 address, and so stated to the Open Market Committee and to the Federal Reserve Board.

Now, market conditions may make it impossible to work within that framework, which is another factor.

Senator BRICKER. You could not carry it out unless you had the full support of the Federal Reserve; could you?

Mr. MARTIN. You couldn't carry it out unless you had full support of the Federal Reserve; but even further than that, we have got to have more bonds held by nonbank investors; we have got to face this refinancing period as far as is possible with bonds held by people that are going to hold them for investments.

Senator BRICKER. And not issue credit money?

Mr. MARTIN. Not issue credit money.

Now, what the money situation will be 6 months from now, I would hesitate to predict. I would think, if controls begin to bite and if the shortages that I am afraid are going to arise occur drastically, that we may have quite a wad of money coming in.

But I think the technical people, certainly at the Treasury, and other people, were very skeptical of how much money could be raised at the present time regardless of the rate that was put on it. The new money just isn't there.

The reason for the pressure on the market is the fact that savings banks, as I said, have been using these long-term bonds literally as bills, and insurance companies have had so many opportunities to commit loan funds, so much so that one insurance executive told me he had committed on more than he could foresee coming in in the way of income to his company for the next 18 months. It is a small company, but I think that gives you a key to the situation we face.

The CHAIRMAN. Eighteen months?

Mr. MARTIN. Eighteen months is what he told me.

That situation had to be met.

I personally have felt that the discount rate was more important on the whole than any other rate, and I favor—I don't want to give the impression that I am a man who favors high interest rates; quite the reverse. I believe that over a long period of time capitalism will do better with as low interest rates as possible. I think more private capital will be stimulated and created by it. I don't want to see interest rates kept low if it is going to promote inflationary pressures. I don't think that is sound, and I don't think that helps matters, either the debt or the stability.

Bu the problem you are struggling with—at least, it seems to me the problem you are struggling with—is how you get as much for your money as possible in terms of restraining inflation without creating a psychology of despair and disaster in markets that cannot be rebuilt quickly.

Now, I think the recent operation in the market has been exceedingly good, and I was very much encouraged personally that the judgment of some of us was borne out: that no panic was developed to date, at least.

Senator Bricker. You could hardly test it in 3 or 4 days.

Mr. Martin. Well, you have had 2 weeks.

Senator Robertson. And is it not true, Mr. Martin, that in a time of a practically free market they did not quite reach par, these 2½ percent bonds? Four thirty-seconds is the lowest that they reached, is it not?

Mr. Martin. No, Senator. They went to 99.

Senator Robertson. They did go to 99?

Mr. Martin. Yes, sir.

Senator Robertson. That was after I checked on them.

Mr. Martin. They went to 99, but I can say that certainly the Federal Reserve should assume the responsibility for an orderly market. When you have an orderly market, that doesn't mean you create a false market but you shouldn't have air pockets in markets. There should never be a point where people who have securities to sell cannot find buyers. When bona fide holders of securities go to the market and are not sure that they can sell at any price it creates panic and fear in a market that shouldn't exist.

Senator Bricker. There is no immediate danger of that.

Mr. Martin. None whatever, but there are some people who carry this idea of a free market too far. Now, in the stock exchange, I made up the rules for specialists on the exchange a number of years ago and we insisted that a man who had capital enough to be qualified as a specialist in the security was responsible for maintaining an orderly market in the stock. That meant that he had to buy even if he lost his shirt on a downswing to maintain that orderly market.

I think we have got to have orderly markets in Government securities.

Senator Bricker. How low would you say you would have to go before you would have what you consider is a panicky market?

Mr. Martin. Well, I just couldn't——

Senator Bricker. How far do you think the Federal Reserve ought to hold?

Mr. Martin. I don't think in either case you can answer that.

Senator Bricker. Categorically, that is true.

Mr. Martin. No. I think it is a long-range proposition and I question very much—I don't mean to be forecasting markets, now—but I question very much whether they aren't in a pretty good position right now.

Senator BRICKER. What further commitments, if any, are there on the part of the Treasury or the Federal Reserve under this so-called understanding, which of course was never reduced to writing in any way, shape, or form, or any definite promise, but what is the understanding as to the future?

Mr. MARTIN. Well, the understanding as to the future is that the Treasury and the Federal Reserve work very, very closely together.

Senator BRICKER. Is the central theme of that understanding that both are opposed to monetization of the debt?

Mr. MARTIN. Both wish to reduce monetization of the debt as far as possible.

Senator DOUGLAS. But each side may differ as to how far it is possible to go?

Mr. MARTIN. That is correct.

Senator BRICKER. That is what I was getting at, whether there was any definite understanding of any kind or character or whether there was just an uderstanding that would be a definite working arrangement.

Mr. MARTIN. There is a working arrangement, yes, sir.

Senator BRICKER. Which would be prompted always by the thought that you want to prevent further monetization of the debt insofar as possible?

Mr. MARTIN. That is right.

Senator BRICKER. And as Senator Douglas has suggested, there is no understanding of what "possible" is in that case?

Mr. MARTIN. That is correct.

Senator DIRKSEN. Mr. Martin, in the event of a very sharp conflict in policy between the Treasury and the Federal Reserve, and the President interposes, takes sides, as he did before, would you in your capacity as Chairman be inclined to subordinate what deep convictions you had and go along with the policy that was laid out, even though it was alien to your convictions?

Mr. MARTIN. No, Senator, I would not. I would fight to the *n*th degree if I were absolutely sure that I was correct.

But the point I want to make there is that I think you should be extremely careful, particularly in the period we are in, about being independent with respect to your judgment per se because we are all working within the framework of the objectives in the Employment Act of 1946. We all have a concept of stability.

Now, my particular concern in the Federal Reserve where I felt I had to go to Secretary Snyder repeatedly and which I pointed out to him, is that central banks should not, in my judgment, be in politics. My judgment of a central bank is that it is a partner with the Treasury, but it is not in politics. It should come to the Congress, to this committee, if it feels strongly about something, but I should never, as Chairman of the Federal Reserve Board, go to the people with an issue.

Senator DIRKSEN. You say you do not believe you should?

Mr. MARTIN. I don't believe I should go to the people, no. I should come to this committee and I should use the authority, if it is given to me, to bring to the attention of the President, Secretary Snyder, and this committee the problem, and I shall resist to the *n*th degree.

efforts or a temptation that might occur in the Government to debase the currency.

Senator ROBINSON. Then you feel that the function of the central banks would be to manage the currency?

Mr. MARTIN. That is correct.

Senator ROBERTSON. And the function of the Treasury is to manage the public debt?

Mr. MARTIN. Yes.

Senator ROBERTSON. And that the Treasury should not have the power or the purpose, if it wanted to for political reasons, to manage the debt at a lower interest than the central banks thought was in keeping with sound management of the currency, to just forcibly use the central banks as a financing agency to carry out a political policy?

Mr. MARTIN. That is not sound policy.

Senator BRICKER. Have there been any commitments made by the Federal Reserve that you know of which would interfere with your free judgment in that matter?

Mr. MARTIN. None whatever.

Senator BRICKER. Has there been any pressure that you know of by the Treasury or the President to compel the Federal Reserve to support a bond market?

Mr. MARTIN. Not that I know of, Senator.

Senator BRICKER. Outside of what we read about the conferences at the White House. You were not in on those at all?

Mr. MARTIN. I was not in on those conferences.

The CHAIRMAN. Gentlemen, are there any further questions?

Senator DIRKSEN. Well, in the event of an assumed unanimity of opinion among members of the Federal Reserve Board on an agenda that you felt was necessary in order to head off even a moderate type of disaster, and let us say that the President intervened, and then it was intimated that you, of course, ought to keep to yourself for awhile, would you on your own initiative feel that you should come up to both Houses of Congress and lay it out where both Congress and the country could see it?

Mr. MARTIN. I am only one member of the Board, Senator.

Senator DIRKSEN. What I am trying to find out, Mr. Martin, is the degree of sense and responsibility that you have in that matter.

You are ostensibly nominated for the head of a private system. The Federal Reserve is, after all, a private system and the President's only identify with it, after all, is to appoint the officers and you have a responsibility to the country. I am wondering to what extent that feeling of responsibility would take you.

Mr. MARTIN. Well, that will take me as a trustee in administering the indenture as I see it. Now, the extent of that will have to be a matter of judgment. I have always found that extremely difficult to determine. I mean, I couldn't give you any precise limit now for it.

Senator BRICKER. There is nothing in the law that requires the Board in any way to support the bonds, is there?

Mr. MARTIN. No, nothing in the law.

Senator BRICKER. It is simply a practice; it has just grown up over the years, has it not? How did it come about, anyway?

Mr. MARTIN. As I said earlier, insofar as open-market operations are concerned, when my father worked on the original Federal Reserve

Act he didn't feel there would be any open-market operations, as we now know them.

Senator BRICKER. It was not provided for in the law at all?

Mr. MARTIN. It was an aftermath, following from their authority to buy and sell Government securities.

Senator ROBERTSON. At one time they were limited to $5,000,000.

Mr. MARTIN. That's right; they are now as to direct purchases from the Treasury.

The point I made a little while ago was that Parker Gilbert, who was in the Treasury, told me on several occasions that he had no idea of the interplay on the market until he found that his operations were being interfered with and then he became very alive to it and said: "What the dickens is this all about?"

Now, that is partly the evolution.

Senator BRICKER. Do you think it is possible to carry on these conferences, consultations, and understandings with the Treasury or as between the Treasury and the Federal Reserve Board without a domination by the Executive and the Treasury of policy?

Mr. MARTIN. I think this is a matter that should be worked out between the Treasury and the Federal Reserve.

Senator BRICKER. Of course, the Treasury speaks for the Executive.

Mr. MARTIN. The Treasury is responsible to the Executive.

Senator BRICKER. That is a political office. What I am thinking about is whether or not in these conferences as they continue to meet future situations, such as you attempted to meet in the last few weeks, do you think it is possible for the Federal Reserve to maintain its integrity and to not succumb to the pressures of the Treasury?

Mr. MARTIN. Well, I do think it is possible for the Federal Reserve to do that.

Senator BRICKER. There is nothing in your past arrangement, nothing in your negotiations up to the present, that would prevent you from doing that thing?

Mr. MARTIN. None whatever. And in answer to Senator Dirksen, on further reflection I would say that the limit to which I would go would be simply offering my resignation.

Senator DIRKSEN. It is more than an academic question, Mr. Martin, because one morning I found on my desk three statements by three different members of the Federal Reserve Board, all of which did not quite square one with another, subsequently having conversations with them one place and another and to observe how far each would go in presenting his individual views when this controversy was on between Treasury and Federal Reserve.

Senator ROBERTSON. This is off the record.

(Discussion off the record.)

Senator DIRKSEN. Now, I suppose it is needless to ask you, Mr. Martin, whether you have any sympathy for the proposal that has been bouncing around here for a good many years, introduced by Mr. Patman, of Texas, to nationalize the Federal Reserve System by issuing bonds, and so on.

Mr. MARTIN. I have no sympathy with that.

The CHAIRMAN. Well, since he asked you that question, I presume you will follow the same course as Mr. McCabe did after the last war to relieve credit restrictions, such as Regulation W, when the war is over and the economy could stand it, so that private business and the banks themselves could take over again. I presume, since you answered Senator Dirksen the way you did, you would follow that same course if and when we get to such a point as that in the distant future because, after all, Mr. Martin, you know it may be a long time before we have peace and we certainly want to get away from Government controls as soon we can when we do have peace.

Mr. MARTIN. I would just like to answer that. I most certainly will, and if you gentlemen see fit to confirm me I want to assure you that I feel I am working for you, and I want to keep in close touch with you.

Senator BRICKER. One more question. We have had a balanced budget now for some time, of course; there has been no deficit in the Government, and since Korea it has had some effect on prices but it is scare buying. The inflation which has taken place since that time has been almost wholly a result of the Federal support of the bond market, has it not?

Mr. MARTIN. No, sir; I wouldn't say that.

Senator BRICKER. What have been the other factors?

Mr. MARTIN. I think the scare buying that you mentioned.

Senator BRICKER. The scare buying has affected prices; but it has not brought any more money into circulation—except the additional credit.

Senator ROBERTSON. They are drawing savings out quite liberally.

Mr. MARTIN. You have had a very substantial decrease in savings in the last quarter of last year and I think this is continuing.

Senator BRICKER. That is the scare buying?

Mr. MARTIN. Well, I just don't know. I wish the banks had shown more restraint. They are competitive institutions, of course, and the fellow across the street will get the business if they don't do it.

Senator BRICKER. You are working on that plan to relieve that?

Mr. MARTIN. Yes, to relieve that, but there is no question that immediately after Korea we went on a binge.

Senator BRICKER. There has been a lot of inflation since Korea, as you know. I realize you cannot give it accurately, but what percentage of that is due to the support of the Federal bond market?

Mr. MARTIN. Oh, I couldn't say that.

Senator BRICKER. You could not even guess at it?

Mr. MARTIN. No; I couldn't even guess at it.

Senator BRICKER. It has been important, though?

Mr. MARTIN. I think there has been some of it, yes.

Senator BRICKER. I would take it there has been more than some, wouldn't you?

Mr. MARTIN. Well, if you knew how many of these bonds had to be bought; that is another question. I just don't know how to weigh that.

Senator BRICKER. Do you know how much additional credit there has been pumped into the stream since Korea due to the fact that the Federal Reserve has supported this bond market?

Mr. MARTIN. Well, in superficial figures there has been several billion dollars.

Senator DIRKSEN. As much as 8,000,000,000, was it not?

Mr. MARTIN. Not quite that much, but there has been a lot.

Senator ROBERTSON. Probably 4,000,000,000 all told.

Mr. MARTIN. That is about it; 4,000,000,000.

Senator BRICKER. Then that multiplies, particularly in terms of credit?

Mr. MARTIN. Well, if you start talking about monetization of the debt, by that I mean the multiple expansion of credit, say 1 to 6 or 1 to 8 or 1 to 4, or whatever the picture is. But whether that has been done, or not, or however, it has been achieved, there is very little doubt in my mind that we were going to have a tough time of it because people were just running hog-wild.

Senator DOUGLAS. Mr. Martin, you could not have had the speculative increase in commodity prices, even if people desired to speculate, unless the banks had made the loans to the speculators. And the banks were able to make the loans to the speculators, were they not, because their reserves had been increased? And their reserve had been increased because the Federal Reserve under Treasury pressure was buying bonds from banks and insurance companies and, therefore, building up reserves for the banks, which in turn enabled them to loan. Was it not this bond-buying policy of the Reserve which furnished the speculators with the money which enabled them to bid up commodities?

In other words, was it not the expansion of bank credit, made possible by the bond purchase policy of the Reserve, which floated this speculative boom?

Mr. MARTIN. No, Senator, I don't think it was. I think it had something but not everything to do with it.

The CHAIRMAN. Did the depreciation of the money have as much to do with it as anything else? I mean, our money in European markets has gone way down, as you know. I suppose Europeans would rather have goods than dollars, would they not? They would rather have gold, as you know.

Senator FREAR. That is what happened to the people in this country.

The CHAIRMAN. They got scared.

Senator ROBERTSON. Mr. Chairman, here is one factor we must recognize.

Senator DIRKSEN. Let us follow that for just one moment.

Senator ROBERTSON. It is right on that point.

Senator DIRKSEN. All right.

Senator ROBERTSON. The pipe lines are fuller than ever in history. Every retail merchant, every wholesale merchant has gotten everything they can get in the last 6 months and they are still buying. Now, undoubtedly banks have financed part of that but a part of it they may have bought with what they already have. The banks did not do it all. But, certainly, this setting up of over $4,000,000,000 of new reserves, deposits which could be multiplied we are told as much as six times, has had a major effect on this situation.

Senator DIRKSEN. Senator Robertson, as a general situation that may be true, but think of all the small businesses that have not been able to tie into the defense program, that are presently either out of materials or running out of materials. I am not talking about commodities, but talking about materials for fabrication and like that, and are now being called up at the rate of 20 and 30 a day. How are they going to stay in business?

But following out what Senator Douglas said, there was an almost unprecedented increase in bank loans from June until now.

Mr. MARTIN. That is correct. That was unfortunate.

Senator DIRKSEN. How do you account for it unless you subscribe to the theory which he has just presented?

Mr. MARTIN. Well, we exhausted the virtual effect of our increase in reserves very quickly, and I think an awful lot of these purchases would have taken place without any credit source. They would have found some means.

Senator DOUGLAS. How could they have paid for it? Money is the medium of exchange. I do not see how they could have bought it if they had not had the money, and they could not have had the money if they had not been able to make the loans. The loans could not have been made unless the banks had the reserves, and the banks would not have had the reserves unless the Federal Reserve had bought the bonds. The chain or causation of it, it seems to me, goes like that.

Senator ROBERTSON. Last October bank loans had increased $9,000,000,000 and there has been a lot of increase since then.

Senator SPARKMAN. Mr. Martin, didn't you just start to comment on what Senator Douglas had said?

Mr. MARTIN. I just wanted to say that I think that the increase in bank loans has had some influence but I do not think that has been the controlling influence.

Senator SPARKMAN. Where else would they have gotten it?

Mr. MARTIN. I know of dozens of people personally who have bought automobiles and haven't borrowed a dime because they thought there was going to be a shortage of automobiles.

Senator BRICKER. They transferred their money to things?

Mr. MARTIN. Sure.

Senator BRICKER. Let me ask you one more question, Mr. Martin. I want to say that I think you are bringing to the Board more experience and ability, probably, than we have often been able to pass upon here, but do you think it is more dangerous to the country generally to have a continuing inflation such as we have been experiencing, than it is to let the cost of government go a good bit higher than it is?

Mr. MARTIN. I do, I do definitely; but I also believe in having as easy money—I don't believe in easy money, per se, I will put it that way—but I think we ought to have as low interest rates as we possibly can have without promoting inflationary pressures.

Senator BRICKER. But you do not know how you can get cheap Government money and expensive private money, there is no way?

Mr. MARTIN. There is no way except by conditioning, you see.

Senator ROBERTSON. Well, Senator Bricker, Senator George said to me at lunch: I think I am going to have to vote for the abolishment of RFC but, he said, I am doing it knowing it will not be but a few months until small business in the South is going to smell the power of high interest rates. He said it was giving them fits down there.

Senator BRICKER. Of course, that was the argument 4 years ago, you will remember, Senator Robertson, in the committee.

Senator SPARKMAN. Mr. Chairman, I would like to ask Mr. Martin this one question following something that Senator Dirksen led into a while ago.

The CHAIRMAN. Go right ahead.

Senator SPARKMAN. I think all of us have been considerably confused by the statements coming out of the Federal Reserve Board, not only on something like this but the speeches they make even in testimony before committees, and it has been confusing and disturbing at times.

The CHAIRMAN. The Senator is absolutely right.

Senator SPARKMAN. Now, Mr. Martin, I just wonder if you have any thoughts about how there can come about some kind of unification of the thoughts or the expressions, the public statements, at least, coming out of the Federal Reserve Board?

I know we cannot have thought control but at the same time it is terribly confusing.

The CHAIRMAN. Once after talking with Mr. McCabe, when this row was going on, I went out of the room. When I came back in I found another fellow from the Federal Reserve Board talking about the problem we had been discussing and it was contrary to what Mr. McCabe had been saying.

Senator SPARKMAN. That is right, and even in committee hearings it is not altogether odd to find one member testifying one way and one another. It has always been that we could get almost any side of the picture we wanted by calling the proper member of the Board.

Senator ROBINSON. Mr. Martin does not have but two hands and I know of at least two members of the Board where it would take at least two hands to hold either one of them.

Senator DIRKSEN. Off the record.

(Discussion off the record.)

Senator BRICKER. Do you feel, Mr. Martin, the Federal Reserve Board needs any more power, either to impose credit restrictions upon Federal Reserve or upon commodity credit speculation?

Mr. MARTIN. I would like to see them have a little bit more power on reserves if we are going to continue in the situation that we are in now.

Senator BRICKER. I was wondering about that.

Mr. MARTIN. Yes.

Senator BRICKER. You have not yet exhausted your full power but you are getting pretty close to the line?

Mr. MARTIN. We have two points to go.

The CHAIRMAN. What about the matter Senator Sparkman mentioned, do you see any hope of having the statements of the various members unified?

Mr. MARTIN. I cannot promise you a thing on that, Senator. I am one member of the Board and I will do the best I can. I have worked with people all my life.

Senator BRICKER. It is a very confusing affair, certainly.

Mr. MARTIN. People have differences of opinion.

The CHAIRMAN. Senator Douglas, do you have any questions?

Senator DOUGLAS. Yes, I have some questions.

The CHAIRMAN. Go ahead, sir.

Senator DOUGLAS. First, let me say, Mr. Martin, that we all have very real respect for you as a man and for your intellect. You have a fine record on the New York Stock Exchange, the Export and Import Bank, the Treasury. We know you are a man of ability, and it is quite evident you are a man of integrity.

Any questions that I have, therefore, I hope you will not regard as personal in any sense.

Mr. MARTIN. Absolutely.

Senator DOUGLAS. But we have a very serious situation here, because some of us want to make certain that the Treasury is not moving in on the Federal Reserve System.

For 3 years you have been trained in the Treasury point of view, I mean, you have been absorbed in Treasury problems. Now suddenly you are put down on Constitution Avenue, and you have to view some of those same problems from a different point of view. It is sometimes hard, with the best will in the world, to adjust your point of view as you move out of one set of interests into another set of interests.

The first thing I would like to ask, and it follows up a comment of Senator Bricker's: Could you see dangers in the Federal Reserve continuing to support the bond market by buying bonds, which is apt to result in swelling bank reserves? Do you see dangers?

Mr. MARTIN. I certainly see dangers in that, Senator, and I would hope that we can devise means of preventing those purchases. I am very hopeful of this conversion plan. I think that may be extended.

Senator DOUGLAS. That will take out of circulation about 20 billion if it is successful?

Mr. MARTIN. It could.

Senator DOUGLAS. If it is complete?

Mr. MARTIN. Yes. I do not think we will get anything like that in this first bite. I think if we got 4 or 5 billion we would be doing well.

Senator DOUGLAS. Suppose the Treasury were to say, "Now, we are really in trouble if you do not buy these bonds; the bond market is going to h---. Are you going to let us down?" Yet there you are. What would you do under those conditions?

Mr. MARTIN. Well, Senator, it depends on the situation. Let's assume that an atom bomb were dropped here——

Senator DOUGLAS. No, we will rule out the atom bomb.

(Discussion off the record.)

Mr. MARTIN. I am very much disturbed about that. I say to you with real humility, Senator, that I wouldn't undertake this job without almost, well, without feeling that I have to ask for Divine Guidance. I mean that sincerely.

Senator DOUGLAS. I am sure the Lord will help you, but what do you have besides reliance on the Lord? Would you have the guts to say, "No, we won't buy these bonds because to do so will build up reserves and make possible more loans and that will cause inflation?" The Chairman of the Federal Reserve Board must have not only amiability, but upon occasion he must have steel. This is a terrible question for me to ask you, as to whether you have steel, because everyone thinks you have steel, but I mean if you were right underneath the gun how controlling in your mind would be the desire to prevent inflation?

Mr. MARTIN. I can only answer that by a straddle again, I can only answer it by saying it would depend on the conditions at that particular time.

Senator DOUGLAS. What I find, Mr. Martin, is that first you say that you are at the praying stage. Next, if you say your actions will depend upon conditions, you are a chip tossing upon the waves without any inner strength to resist circumstances which beat in upon you. But if you have a general philosophy, then you can adjust to conditions, but you will not necessarily be broken by them. You can be bent, but not be broken.

What I am trying to get at is this: To my mind the Treasury has in past years adopted an almost totally incorrect attitude toward the Reserve and toward the public debt. We will rule out the war—we might even rule out the first 6 or 7 months after the war—but at least from 1946 on it has adopted the policy that the Federal Reserve must buy bonds in unlimited quantities so as to maintain the price of Government bonds and to keep the interest rate down. And it has insisted that the Reserve do this, although in doing it the Reserve has increased bank reserves which, in turn, have increased loans which, in turn, have increased prices. And to my mind the Treasury has been extremely insensitive to this danger of inflation. They have insisted that the Federal Reserve subordinate itself to a low interest rate and to maintenance of par or above on Government bonds which, on the par question in turn, is really an interest-rate question.

What I am trying to get from you is this: Do you feel solemnly the necessity, at all costs almost, of trying to prevent prices from increasing by an inflation of the credit structure? We are being asked to turn over to you the most important economic instrument in the country and yet for 2 years you have been a member of the Treasury. I do not say that you have drafted this policy because it started long before you and has continued, but at least you have gone along with it and have not objected to it, and perhaps honestly believed in it because you have been preoccupied with this problem of keeping interest rates down and keeping par prices up.

Now we are suddenly asked to put you on the Reserve. The question is, Do you feel this thing sufficiently? Could you stand out against the inevitable pressure of the Treasury?

Senator ROBERTSON. Off the record.

(Discussion off the record.)

Senator DOUGLAS. I wonder if the reporter would go back and repeat my question. It was rather lengthy.

(The question was repeated by the reporter.)

Mr. MARTIN. I would like to say, Senator, that the Treasury has been just as much opposed to inflation as anyone else during this period and there were under way in the Treasury prior to Korea—I know from conversations with Secretary Snyder—some policies which might have been developed more actively than they were to proceed along the lines that you are discussing. After Korea there has been a very real question of whether we could not find some means of holding this spree that we are in without unduly disrupting the Government bond market.

I just do not see that I can answer that question in terms of precision. I feel very strongly about the danger that we are facing. If you are asking me would I cooperate——

Senator DOUGLAS. No.

Mr. MARTIN. We have $39,000,000,000 coming up.

Senator DOUGLAS. That is in July, though.

Mr. MARTIN. That begins June 15. We may have some new money demands. If you ask me whether I would let that Government financing fail, fail badly or if need be go to an interest rate of 7 percent, let us say and give a real jolt to the economy. With boys dying in Korea—I have lost two of my best friends in Korea so I feel this rather strongly—I am not sure what I would do if it came to that place. I would have to depend upon an evaluation of the picture at the particular time the financing came up.

Senator DOUGLAS. But assuming that you refund these 2½-percent bonds by the end of the month, you then have 2½ months before you face your next refunding problems. During that 2½ months would you think that the market would have to be supported in order to keep interest rates from rising above 2¾ percent, or prices from falling, or would you believe that you could have a free market during those 10 weeks?

Mr. MARTIN. I would hope that we could have a free market during those 10 weeks.

Senator DOUGLAS. What would interfere with your belief in a free market?

Mr. MARTIN. It all depends on how disorderly that market might become.

Senator DOUGLAS. That is a subject of some curiosity. People say that the Federal Reserve should promote an orderly market, but the terms of an orderly market are seldom defined. What do you mean by an orderly market as contrasted to a disorderly market?

Mr. MARTIN. I think the market in the last 2 weeks has been orderly.

Senator DOUGLAS. That is giving your meaning by analogy, but I mean by definition?

Mr. MARTIN. By definition I would say a market is disorderly when a seller can't sell at any price. In other words, where fear controls the market.

Senator DOUGLAS. I do not want to push dialectical points too far, but would you say anything short of that was orderly?

Mr. MARTIN. In the stock exchange we always said that if there were no bid in reasonable relationship or no sale in reasonable relationship to the previous sale the market was disorderly. In other words, if steel was selling at 50 or Government bonds were selling at part and the next sale was 98¼ I would say that was not an orderly market.

Senator DOUGLAS. Some people would define an orderly market as meaning a market where, in any 1 day, the drops were not great, that is, where the bottom did not fall out, even though over long periods of time there were shifts in the market quotations.

In other words, would you regard as an orderly market one in which there was no precipitous fall in a day, but provisions for slow adjustment over a period of time?

Mr. MARTIN. Yes, I would regard that as an orderly market.

Senator DOUGLAS. Then you would not regard it as a function of the Reserve Board to prevent Government bonds from falling over a period of time, say four or five points, provided that they did not drop or fall greatly in any 1 day?

Mr. MARTIN. Provided that was consonant with the policy we were working under.

Senator DOUGLAS. Well, the Treasury has insisted that the price of bonds be kept up, the interest rate down and that the function of the Reserve was to purchase in such quantities as would enable this to be done. The result of that has been this increase of approximately $4,000,000,000 in bank reserves, of which something over a billion was neutralized by the increase in Reserve requirements. Then this increase of between 2 and 3 billion in bank reserves has made possible a 10 billion increase in bank loans.

Now, while the amount of excess reserves the banks have, and the resulting unused credit, is not great, the tendency to build up reserves with more bond sales will be substantial, and I wish I detected more steel in you, Mr. Martin. I know you are in a difficult position, and these questions are rough questions.

Mr. MARTIN. I certainly agree, Senator, that iron which breaks is not as good as steel which bends, but the degree to which you bend is a matter of how the markets are being conditioned. Now, I think part of the problem of the Federal Reserve and the Treasury is to create an atmosphere in which there will be confidence in the market.

Senator DOUGLAS. You talk about confidence. I talk about reserves. To you the important thing is getting confidence in the markets, getting agreement between the Federal Reserve and the Treasury, having everything nice here, but out in the country the question is, What is happening to bank reserves? And if they are swelling, since the banks naturally want to earn as much as they can, they will take advantage of their increased reserves to lend more, and if they lend more, other things being equal, prices will rise.

I sometimes think that we get a myopic view here in Washington. We think of the relationships of Government officials to each other, rather than the effect of Government upon the country as a whole.

Mr. MARTIN. I think an important function is to create confidence in the market because I do not think markets are just something——

Senator DOUGLAS. Let me ask you this: I remember the famous case of Charles E. Mitchell. He supported the price of Anaconda copper at something like 120. I bought some at something like 125, until the underwriting syndicate had disposed of all their holdings. Then when they disposed of all their holdings they proceeded to end support of the market and the price went down.

I believe when you were on the stock exchange you labored with the SEC to prevent just such things as that, and I want to commend you for it. But I have sometimes felt the Treasury was pushing the Federal Reserve into an almost identical measure where, through a pool, you become virtually an underwriting pool and then in your desire to see that your underwritings and issues are successful and your interest rates are low, you lend an artificial support to the market and are not too dissimiliar from Mr. Mitchell and his merry men who took the American public for a ride.

Mr. MARTIN. Isn't the important point there pricing?

Senator DOUGLAS. No. You can make an adjustment of the interest rate. That is, if you adjust the interest rate you can accomplish that sufficiently.

Mr. MARTIN. But you have got to have some opportunity to sell. If you put out a new issue a normal stabilization operation would require you to prevent the speculators and the dealers, as such, from upsetting your issue after you come to agreement on the price until you had had a fair chance.

Senator DOUGLAS. I do not want to prolong the questioning all afternoon but I again want to tell you that personally I have great respect for you as an individual.

Mr. MARTIN. That is mutual, sir.

Senator DOUGLAS. I think you have been a distinguished public servant, but I hold my breath at turning the Federal Reserve System over to you. I would make you Secretary of the Treasury without a minute's question, if it were within my power, but as for turning over the Federal Reserve System to you I am frankly worried.

Senator SCHOEPPEL. Are you through?

Senator DOUGLAS. Yes.

Senator SCHOEPPEL. Mr. Martin, I will be very frank with you. A lot of this is completely over my head. I will admit my shortcomings here and, like some of the other members of the committee, I have been confused by the turn of events in the last year, or so. I commend your frankness in stating here your working relationship with the Treasury Department. That is very, very commendable. You are just now leaving that Department, in the event this confirmation goes through—and it will. You are shifting your allegiance, you are shifting your responsibility to another great agency that is going to play a very important role in this inflationary picture or period that we are in.

We have been hearing through the press, and the public generally has gathered the impression, that agreements have worked out. I think working out agreements on an open discussion level in the interest of the public is a good, wholesome thing, I do not condemn you on that.

But I want to ask you this question: In your participation in these discussions, in arriving at these compromises you quite frankly stated that you were not fully cognizant of certain agreements or certain discussions that had gone on before. Now, if there should develop, somewhere down the line, agreements that were thought to be binding, understandable, and maybe agreed to, which you did not participate in, which would be incompatible with some of the things you mentioned here today, would you be equally as zealous in fighting them and standing out against them if you did not think they were sound in principle, despite the fact that you had a close-working relationship with the Secretary of the Treasury of the United States?

Mr. MARTIN. I most certainly would, Senator.

Senator SCHOEPPEL. I appreciate that answer because it means a lot to me.

I did hear you say awhile ago that if situations developed you could, and would if it came to that end, tender your resignation. I do not want to confirm a man who will tender his resignation if the going gets rough. I want someone with a background of courage, which you have. If a situation developed where, in your judgment, you could not go along, just for the sake of agreeing or disagreeing with an individual, I would want somebody in there who would have the stamina and, let us say the steel—as Senator Douglas puts it here—to, if necessary, go to the public and go to the people of this country and fight for a principle, even though it may mean trodding upon someone's toes and breaking a friendly relationship in this most important period we are in. That is the thing I am interested in.

How do you feel about that? It may come to the time, we may come to a place in these trends we are developing to where the country may need just such as individual. That is the individual I hope we have before us today and have an opportunity to confirm.

Mr. MARTIN. Well, Senator, I can answer one thing here. I am not going into the Federal Reserve as a stooge for John Snyder. I have too much respect for him; he wouldn't want me to go into the Federal Reserve as a stooge for him. He is not that type of individual. I have worked as closely with him as anyone in town. We do not always agree on everything but I think he is a man of exceedingly good judgment.

When it comes to a resignation I have been through some pretty tough situations. I went through the reorganization of the stock exchange when everybody was throwing bricks around the place, the Old Guard and the New Guard, and I never hope to go through a worse period of emotions and bitterness, and I never offered my resignation at any point. The only point where I would offer my resignation is over a matter of conscience and that is what I think is the most difficult thing to do.

I always say of a man who comes to Washington, you can tell his maturity by the times he offers his resignation. There are a lot of people I know in the working level of the Government who, every time they do not get their way, offer their resignation not over an issue of conscience but over an issue of judgment.

I would resign tomorrow if I became convinced that the Secretary of the Treasury were dishonest in his working relationships with me. I might have to state publicly why I did it but there is no temporizing with that type of thing. That is something you cannot temporize with.

But if it is a matter of two or three people sitting around the table and having differing judgments about a given problem—and I would say in this field the judgments are about as difficult to make as any I know of—the only person I personally distrust in the field of economics today is the man who knows the answer. That fellow I distrust.

When I was younger I used to read a great many of Senator Douglas' works on employment. I studied in the Columbia Graduate School for nearly 10 years part time; Leo Wolman's course, Senator. We used to frequently have some of your work.

Senator DOUGLAS. I hope you had a critical point of view.

Mr. MARTIN. And I had very sharp convictions about certain things and I have written several papers that I have changed my viewpoint on completely as time has gone on.

Now, I don't think I am the type of individual who would run away from a fight. I think my record on that will stand. But also I think it is awfully difficult to set your own judgment up on some of these things and say: "This is the only way it can be done."

I think the Treasury and the Federal Reserve are the same; I don't think they are two separate entities here that just have to be going down separate paths. I think they have to make some adjustments on both sides.

The Treasury is responsible to the electorate and the Federal Reserve is not to the same extent. I think that under the conditions we are facing today there has never been a time—it is namby-pamby to talk about cooperation—but there has never been a time when we have got to try harder than ever to cut through the murk of cynicism and distrust that there is in this country and go side by side, as I have said about the Army and Navy having to work together. I think the Treasury and the Federal Reserve have to work together.

Senator DOUGLAS. Suppose you felt that Secretary Snyder, though honest, was honestly wrong?

Mr. MARTIN. I would go to him, Senator, as I have done on some occasions, and I would make by point of view as strongly as I could to him and if I were absolutely convinced that he was 100 percent wrong in every respect, that there was no give in him at all, in accord with what the law gave me the right to do and the Federal Reserve, I would pursue that course, but I would certainly make every effort, I would break my neck to try to get together with him. Because if it is as simple as that, then I don't think there is any question what course I would take.

But in most of these cases when you view the budgetary situation and all the headaches that we are faced with, I don't think you can say too frequently that "I know he is 100 percent wrong and I am 100 percent right."

The CHAIRMAN. On these regulations, you would feel the same way toward the officers or employees or directors or whatever you have of the Defense Production Act insofar as the Federal Reserve is concerned, on credits, restrictions, and so on? I mean, you would want to be your own boss?

Mr. MARTIN. That is correct.

The CHAIRMAN. You are not going to have some of these fellows who come down here for a few years say what must be done and what must not be done?

Mr. MARTIN. That is correct.

The CHAIRMAN. Because we have a horrible situation here already and it is going to get worse.

Senator SCHOEPPEL. A terrible situation.

The CHAIRMAN. It is disgraceful.

Any further questions?

Senator SPARKMAN. I have one other question. This was prompted by the question Senator Douglas asked about the reserves.

To what extent has the Federal Reserve System not yet put into effect its full powers of additional reserve requirements?

Mr. MARTIN. I think it has two points to go.

Senator SPARKMAN. Yet to go?

Mr. MARTIN. Yes.

Senator SPARKMAN. In other words, it is not a question—we failed to give them all the authority they wanted in the last Congress, but there is still some latitude under which they can operate?

Mr. MARTIN. Yes; but it is very, very slight.

The CHAIRMAN. Mr. Martin, would you mind stepping out of the room while I talk to these gentlemen?

Mr. MARTIN. Not at all, sir.

(Discussion off the record.)

The CHAIRMAN. Do I hear a motion that the committee vote on this matter first thing at 10 o'clock tomorrow morning?

Senator DOUGLAS. I so move.

The CHAIRMAN. The motion is carried.

We will meet tomorrow morning in room 301, at 10 o'clock. The first order of business will be the nomination of Mr. Martin.

(Whereupon, at 4 p. m., the committee recessed until 10 a. m., Tuesday, March 20, 1951.)

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